

NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



THESIS

**MANAGEMENT AND OPERATIONS
CONTRACTS:
A BETTER ALTERNATIVE FOR MPF
MAINTENANCE**

by

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December 1995

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**OPERATIONS AND MANAGEMENT CONTRACTS:
A BETTER ALTERNATIVE FOR MPF MAINTENANCE**

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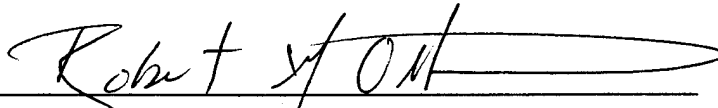
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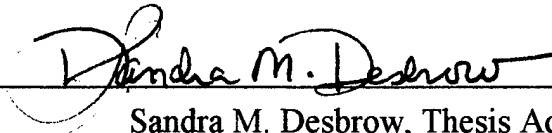
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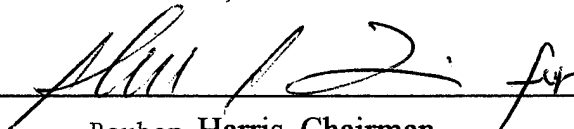
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ABSTRACT

Management and Operations Contracting is a special contracting method that has been used by the Department of Energy with great success. It is a contractual vehicle that allows the Government to enter into an indefinite contractual relationship with the contractor. The primary question of this thesis is whether a Management and Operations contract could be utilized successfully to perform the requisite contract requirements under the Maritime Prepositioned Force (MPF) Program. The objective of this study is to analyze Management and Operations contracting as an alternate to the Option Year Contracting currently utilized. By comparing and contrasting these two procurement methods, it was established that a Management and Operations contract is a more cost effective and productive tool to meet the program's mission needs. The research revealed that Management and Operations contracting will produce significant benefits over the Option Year Contracting currently used. This study finds that Management and Operations contracting should be used in the MPF Program to ensure that the United States improves a critical element of the Marine Corps amphibious capability to respond to the challenges of the 21st Century.

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I. INTRODUCTION

A. BACKGROUND

Since 1921, the statement of the 13th Marine Corps Commandant has been used time and time again, "Call in the Marines." Short, succinct, and direct, these four simple words have been echoed throughout history. Vietnam, Grenada, and most recently Southwest Asia, have shown that when given the call the Marine Corps responds. But how do they get there? How do they deploy? Until recently this call has been answered by the Navy-Marine team. Prior to 1980, the U. S. Amphibious Fleet almost exclusively handled the heavy-lift requirements of the Marine Corps combat forces. [Ref. 9]

Upon entering the 1980's, a new concept was developed --a concept that would allow Marines and their equipment to deploy anywhere on short notice. The Maritime Prepositioning Force (MPF), as it is known, prepositions the hardware and supplies for a Marine Expeditionary Force aboard ships forward deployed across the globe. The ships, 13 total, are formed into three squadrons and are capable of outfitting any size Marine contingent, ranging from a Marine Expeditionary Unit, approximately 1,600 men, to a Marine Expeditionary Force, totaling in excess of 10,000 men. The

squadrons are continually on alert and awaiting the "call" that would bring them into action. [Ref. 9]

The concept and initial planning for MPF started in 1979. It originally surfaced in response to a request for a low-cost alternative to fill a strategic lift shortfall. [Ref. 9] It was thought combat gear could be loaded aboard the Maritime Prepositioned Ships (MPS) and transported to most any part of the globe with no dependence on strategic airlift.

The concept, as it currently exists, was tested during operations Desert Shield and Desert Storm. On 15 August 1990, eight days after called, 17,000 Marines were sent 8,000 miles from the Mojave Desert and West Coast of California to the Saudi Arabian Desert. When they arrived, MPF was already on the scene and waiting to provide the Marines their required gear. [Ref. 10] If MPF had not provided essential combat equipment to the initial flow of forces, the outcome of the Gulf War might have been different.

Whether it is responding to a regional conflict, such as the Gulf War, or providing humanitarian support, as demonstrated during the 1991 volcanic eruption in the Philippines, MPF has shown its value. Flexibility coupled with responsiveness have enabled it to become the force of

choice. In doing so, the maintenance required to ensure that MPF is always available has taken on new importance.

The current maintenance program, Maritime Prepositioned Force Maintenance Cycle (MMC), requires each individual ship to debark its entire load, at 30 month intervals, in order to receive scheduled maintenance, install modifications, and refurbish supplies. This cycle takes approximately 60 days and is conducted at the Blount Island Port Facility (BIC) in Jacksonville, Florida. The importance of the MMC can not be stressed enough. If not conducted properly or at the correct intervals, the individual MPSS or the MPF Program itself could be unavailable when it is time to "call the Marines."

During a time of declining budgets, fiscal constraints, and increased Congressional oversight, ensuring that MPF remains ready is even more crucial. The current MMC cycle is performed under a contract for nonpersonal services. It is performed by a private contractor and costs in excess of \$25 million annually. This contract, one of the largest the Marine Corps administers, is regulated through a procurement method known as Option Year Contracting (OYC). However, this method does not appear to be the most efficient. A method currently used by the Department Of Energy (DOE),

known as the Management and Operations Contract (M&O), may prove to be a better means of contracting for these services.

B. RESEARCH OBJECTIVE

This study analyzes M&O contracting as an alternate to the Option Year Contracting currently utilized. Analyzing this procurement method may suggest a more cost effective and productive tool to ensure that the U. S. improves a critical crisis response element to meet the challenges of the 21st Century.

C. THE RESEARCH QUESTION

The primary research question is: Can M&O contracting successfully improve contract performance under the MPF Program? The subsidiary research questions are:

- What is M&O contracting?
- What is its applicability to the MPF Program?
- How does M&O contracting compare and contrast to the Option Year procurement method currently used?
- What are the obstacles to using M&O contracting?
- What are the benefits of using M&O contracting in carrying out the procurement requirements?

D. SCOPE, LIMITATIONS AND ASSUMPTIONS

The acquisition plan for the MPF maintenance contract, as prepared in accordance with Federal Acquisition

Regulation (FAR) Subpart 7.1, provides for a Cost-Plus-Award -Fee - Level Of Effort (CPAF-LOE) contract with unrestricted competition. It is a service contract conducted in accordance with FAR Part 37. The current contract is for one year with four additional option years. While the strategy has been largely successful in satisfying the mission need, experience with recompeting the contract has demonstrated that it is neither the most effective nor the most economical means of procuring the required services. Substantial cost and performance benefits may accrue if the MPF maintenance procurement were accomplished via an M&O.

Per FAR Subpart 17.6, the M&O is an agreement under which a Federal Agency contracts for the operation, maintenance, or support, of a Government-owned or -controlled research, development, special production, or testing establishment wholly or principally devoted to one or more of the Federal Agency's major programs. [Ref. 16] This thesis will identify the characteristics of M&O contracting and show their applicability and potential benefits to the MPF maintenance program.

The only limitation to this research was the relative lack of knowledge about this procurement method in the Navy and the Marine Corps acquisition community. No other limitations were noted.

Three key assumptions were made in this study. First, the reader is familiar with cost-type contracts and their applicability to those special contracting methods listed in the FAR Part 17. Second, no statutes or regulations presently preclude anyone from incorporating an M&O in an acquisition strategy. Finally, the M&O described in the Department of Energy Acquisition Regulation (DEAR) may be used as a template for this study.

E. LITERATURE REVIEW AND METHODOLOGY

Some of the literature used in this study includes the following documents: The Commandant's Planning Guidance (CPG) and The Mobility Requirements Study Bottom-Up Review. Periodicals include: The Amphibious Warfare Review and the Navy Times. The FAR, DEAR, and current MPF contract also provided invaluable reference materials. Additionally, several interviews were conducted with both Marine Corps and DOE acquisition personnel and their respective legal counsels. Not all Marine Corps personnel interviewed worked directly on the MPF Program. However, their experience and knowledge were instrumental in completing this study.

Questionnaires were also used. They were distributed to key personnel directly involved with this maintenance contract both for the Government and the incumbent contractor. Participants included the procuring contracting

officer (PCO), administrative contracting officer (ACO), and several Government contract specialists. Additionally, the program manager (PM) and contracting officer (CO) for the incumbent were queried along with some of their subcontractors. The information was compiled to compare and contrast both the M&O and OYC methods. Finally, their applicability to the MPF program will be analyzed in detail.

F. ORGANIZATION OF STUDY

The following chapters in this thesis will compare the current acquisition process with the M&O method and discuss the elements necessary to successfully implement the M&O procurement method. Chapter II will analyze the OYC method, focusing on the characteristics, benefits, and limitations. Chapter III will provide the same discussion for the M&O procurement method. Chapter IV will then compare and contrast the two methods, emphasizing how these methods apply to the MPF procurement. Finally, Chapter V summarizes the information presented in the thesis, makes recommendations on conducting this procurement in the future, provides conclusions, and lists areas that should be considered for further research.

II. OPTION YEAR CONTRACTING

A. BACKGROUND

Option Year Contracting (OYC) is the Government's unilateral right to purchase additional supplies, or services, or extend the contract above and beyond what is specified in the base period of the contract. [Ref. 17] OYC is normally utilized when a longer contract is preferred for a particular procurement. For the buyer, OYC represents an administrative time-saver allowing an immediate award without having to resynopsise or recompetete. When future funding is uncertain, OYC may be used to obtain needed supplies and services when funds actually become available. Normally, OYC is synopsized in the original contract solicitation and is evaluated as part of the overall process. [Ref. 7] For offerors, OYC increases the potential value of the contract, thereby attracting more offerors, i.e., increasing competition, and lowering the bid price. If options are exercised, OYC also increases contractor productivity by establishing management continuity to effect gains via the learning curve. Analogous decreases in bid prices and increases in productivity also accrue to subcontracts. [Ref. 2]

There are actually two distinct options available under OYC: (1) quantity, and (2) term. Under the quantity option, the Government has the unilateral right to purchase additional supplies or services up to the limit specified in the contract. The term option allows the contracting officer to unilaterally extend the contract. It is usually associated with Indefinite Delivery Contracts (IDC) or service contracts. The term option allows the contracting officer to transform a traditional contractual relationship into a long-term one, and it can be done with increased flexibility. As such, a one-year contract with four option years becomes a five-year contract. [Ref. 7]

OYC is a special contracting method that surfaced a long time ago. It is unclear when it actually came into use; none of the literature states a time of inception. Several factors drove the Government to seek a long-term, sole source relationship. These factors included geographic proximity to supplies, inadequate transportation methods, existing monopolies, proprietary products, inflexible design specifications, and an absence of alternative sources. [Ref. 3] The buyer, usually the Government, can use OYC to exploit a current, favorable situation and extend the contract uninhibited by the factors stated above.

OYC provides benefits to both the buyer and the seller that were not available through traditional or short-term contracting. Some of OYC's benefits include reduced inventory, cost control, dependable supply levels, and reduced lead times. The benefits of this procurement method will be discussed in greater detail later in this Chapter. OYC is a procurement method that provides the buyers flexibility and allows them to extend the current contract and take advantage of the present relationship. [Ref. 21]

B. ELEMENTS

As with most special contracting methods there are criteria which must be met before using them. OYC is no different. Because of the flexibility associated with this procurement method, the criteria for use must be separated into two areas: solicitation guidelines and contract criteria. Those guidelines that must be incorporated into the solicitation will be presented first. Then, the criteria that apply directly to the contract will be discussed. It should be noted that these elements are not all inclusive and they must not all be satisfied in order to utilize this procurement method.

1. Criteria

a. Solicitation

The following guidelines, stated in the FAR Part 17.203, may be included in the solicitation to use OYC:

- solicitations containing option provisions shall state the basis of the evaluation for exercising the option and shall inform the potential offerors that it is anticipated that the Government may exercise the option at time of award.
- solicitations should allow for the option quantities to be offered without limitations on price.
- solicitations may, in unusual circumstances, require that options be offered at prices no higher than those for the initial requirement.
- solicitations that require offering an option at prices no higher than for the initial requirement shall specify that the Government will accept an option price higher than the base price only if acceptance does not prejudice any other offeror.

As noted, these are only guidelines and are not all required to solicit potential OYC terms with the offerors proposal.

b. Contract

As with solicitations, the FAR Part 17.204 provides guidance for implementing OYC in the actual contract language. The following criteria are provided by the FAR:

- the contract shall specify limits on the purchase of additional supplies or services, or the overall duration of the term of the contract including any extension.
- the contract shall state the period that the option may be exercised.

- the period shall allow adequate lead time to ensure continuous production or services.
- the period may extend past the contract completion date for service contracts to allow for situations where exercising an option would obligate funds that are not available in the fiscal year in which the contract would be completed.
- unless otherwise approved in accordance with agency procedures, the total of basic and option years shall not exceed five years in the case of services and shall not exceed the requirement for five years in the case of supplies.
- the contract may specify options for increased supplies or services as a percentage of specific line items, increase in specific line items, or additional numbered line items that were identified as the option.
- extensions of the term of a contract may be expressed as an amended completion date or additional time for performance.

2. Evaluation of and Exercise of Options

Once the relevant OYC language has been implemented in the solicitation and/or contract, the PCOs and their agency must thoroughly review the current and projected situation. They must examine all pertinent factors to ensure that exercising the option quantities of supplies or the additional services is in the Government's best interest. As with the OYC implementing language, the guidance for both evaluating and exercising OYC is located in the FAR Part 17.206 and 17.207. In order to exercise OYC, the PCO must:

- evaluate any option quantities or terms contained in the solicitation when it had been determined prior to soliciting offers that the Government is likely to exercise options and it is in their best interest to do so.
- provide written notice to the contractor within the time specified in the contract.
- if the contract provides for an economic price adjustment and the contractor requests a revised price, the PCO shall determine the effect of the adjustment on prices under the option before the option is exercised.
- options may be exercised only after it has been determined that funds are available, the requirements covered by the option fulfill an existing Government need, exercising the option is most advantageous to the Government, and the option was synopsized in the Commerce Business Daily (CBD) and other appropriate forums in accordance with FAR Part 5.

PCOs may exercise options for any number of reasons.

In exercising an option they must determine that this action is in the Government's best interest. The PCOs and their agency have several tools to help them act in the Government's best interest. Two of these tools include: 1) conduct a resolicitation and then extend if no better offers are received or 2) conduct a market analysis of prices or current conditions and determine if the option is still the Government's most advantageous avenue. In exercising the OYC provisions, the Government is given a great deal of discretion in determining what is actually in its best

interest. This flexibility is important, especially when continued funding is questionable. [Ref. 17]

C. BENEFITS

OYC's benefits are indeed considerable. It is easy to explain why this particular procurement method has been used in the MPF maintenance contract at Blount Island. These advantages will be analyzed below. However, any potential benefits that are not germane to the current MPF Program will not be discussed. The benefits of using OYC are:

- Contractor Replacement
- Improved Contractor Efficiencies
- Improved Quality
- Improved Resource Planning
- Known Process

1. Contractor Replacement

This is one of the strongest advantages for OYC. It allows the Government to subtly incentivize the incumbent contractor to perform well. Knowing that future options depend on satisfactory current performance, the contractor must always optimize performance. Additionally, option terms provide the Government flexibility. Specifically, they allow for canceling the contract, prior to exercising the option, without any additional costs. For example, the Government may decide that extending an option term for

another year of MPF maintenance is not in its best interest. Therefore, the agency may cancel the contract without having to pay the additional termination for convenience costs normally associated with this type of action. It also provides the agency an avenue of exit in cases of reduced funding or poor incumbent performance. [Ref. 12]

2. Improved Contractor Efficiencies

OYC also provides contractor efficiencies that are not normally associated with shorter contracts. In the Blount Island maintenance contract, the contractor is required to submit a Program Management Plan for both MMC and shipboard actions. The plan includes such items as resource management, contingency plans for emergency personnel replacement, and plans to meet unprogrammed surge workloads. This intricate and very detailed plan can not be executed until it is approved by the Government. By extending the incumbent contractor, the Government gets a contractor who has an approved contingency plan, knowledge about the general scope of work, and understanding of the overall program. Since the tasks are repetitive, the contractor gains more knowledge with each option that is exercised. This in turn better utilizes contractor resources and improves operating efficiencies. This, coupled with the fact that the incumbent can be dismissed for inef-

ficient performance, provides a real incentive for the contractor to reduce nonvalue-added work or processes.

[Ref. 18]

3. Improved Quality

A very important benefit from OYC is quality improvement. The long-term relationship fosters better communication between the Government and the contractor. As a result, both parties are able to resolve any differences or conflicts they may encounter. For instance, good communication between the Government and the incumbent could provide useful information about labor difficulties, allowing them to initiate immediate corrective action. [Ref. 1] This type of behavior is not normally associated with short-term contracts. [Ref. 23]

Additionally, the knowledge and experience that could be gained from previous option years would provide for potential efficiency advantages. For example, management relations with the Government can only be enhanced with a longer contractual relationship. It would allow the incumbent to establish Standard Operating Procedures (SOP) to improve such processes as inspection/acceptance. As a result there would be an increase in quality.

4. Improved Resource Planning

Improved resource planning is another benefit of OYC. To the contractor, this means a guaranteed demand for services over an extended period of time. The contractor can establish long-term relationships with subcontractors that could reduce costs for supplies and materials. Also contractor and subcontractor could make capital investments that could produce other resource cost savings. These cost savings may be shared with the Government.

Additionally, the contractor can provide greater dependability and is more responsive to changes proposed by the Government. This is accomplished by the contractors ability to attract and retain quality personnel, especially upper management. By using OYC the contractor is able to attract higher quality personnel because of the longer contract duration. Management and workers are more willing relocate to a new area when the work offered potentially covers several years. This provides the contractor access to higher quality personnel than under a contract of shorter duration. The higher quality personnel will benefit both the contractor and the Government. [Ref. 2]

5. Known Process

This contracting method is tried and tested. Mr. William Gates, Assistant Director of the Contract

Directorate at Marine Corps Logistics Base (MCLB), Albany, Georgia, states that, "although this procurement method is far from perfect--it works--it provides for an easy way to discontinue the contractor if necessary but still provides the needed coverage for the lead time that is required to recompetete." The fact that the current process, with which most people are familiar, works would create anxiety if the Government considered switching to another less known method.

D. LIMITATIONS

As with all contracting methods, there are both benefits and limitations. The two major drawbacks associated with OYC, the currently used procurement method, and the MPF Program, include:

- Recompeting Costs
- Contractor Turnover

1. Recompeting Costs

There are significant recompeting costs associated with OYC. They are broken down into two categories depending on what the Government is trying to accomplish. They are:

- Costs associated with exercising an option
- Recompetition Costs

a. Costs for Exercising an Option

As stated earlier in the Chapter there are several costs involved in exercising an option. To exercise an option under OYC, the PCO must synopsise the action in the CBD and conduct either a formal or informal market analysis to ensure that the prices in the option are equal to or better than the current market price. [Ref. 17] This process requires the PCO to focus on matters other than administering and operating the current contract. In the BIC, MPF contract this cost is paid up front. When soliciting this contract all option years are priced out in the offerors' proposals. BIC feels that by pricing options in this manner they can significantly reduce the recompetition costs encountered when exercising an option.

Additionally, Government contract personnel stated that the Procurement Administrative Lead Time (PALT) associated with this contract is 12 to 24 months. This, coupled with the extensive evaluation required to conduct a market analysis and price options, requires evaluating initial offers. Evaluation at any other time would be impractical and virtually impossible. Once the contract is in place, unless the contractor's performance is unsatisfactory, BIC will usually exercise all option terms. Since

beginning the MPF program and using OYC, all contract options on all contracts have been exercised. [Ref. 12]

Subsequent interviews determined that this practice exists because of the enormous costs that would be encountered if the contract were optioned as stated above. Although no monetary figures were available, Mr. Jeffery Epstein, former Assistant Counsel at MCLB, Albany, Georgia, approximates that recompetition costs for exercising the option in this contract would be approximately \$150,000. Multiply this figure times the number of option years (four) and costs quickly escalate to \$600,000.

b. Recompetition Costs

The other side of this double-edged sword is the recompetition costs if the option is not exercised. The costs of recompeting this contract involve several factors. The immediate costs are those associated with the evaluation process. Evaluating initial offers, holding preproposal conferences, and discussions with potential offerors significantly contribute to recompetition costs. Normal recompetition of this contract requires four senior civilian employees for two man-years and one attorney for one man-year. Provided that no protests are filed, which is the exception and not the rule, this action costs approximately \$200,000. Advertisements and the potential cost associated

with preaward protests easily doubles this figure. When this contract was recompeted in 1991, it was protested a total of five times; the Government cost was in excess of \$500,000.

[Ref. 16]

2. Contractor Turnover

Another potential problem with OYC are the costs associated with contractor turnover. Every time that a new contractor is brought in, a new 90-day turnover begins. New in this sense means anybody other than the incumbent. During this period, the new contractor works with the incumbent to take over contract management. The Government pays phase-in/phase-out costs associated with the turnover. When AlliedSignal Technical Services Corporation (ATSC) conducted its most recent turnover with the then incumbent, Halifax Technical Services (HTS), the Government's cost was estimated to be \$506,750. [Ref. 20] This may seem minuscule when compared to the total annual cost of the contract, \$25 million. However, adjusting this number on an annual basis for inflation and considering that the contractor may be replaced for poor performance more frequently than every five years, and the associated turnover costs soon take on a more significant value.

Also, these are only the costs associated with ATSC. Phase-in/phase-out costs for HTS are unavailable. However, interviews with Government procurement personnel and ATSC showed this figure to be potentially three times larger for the contractor phasing out. [Ref. 6]

Furthermore, there is a readiness cost. MPF is responsible for over 50 percent of our Nation's strategic lift. [Ref. 9] In a turbulent environment with increased emphasis on littoral warfare, the next major conflict could be anywhere. It is paramount that the MPF Program remain on track and that all scheduled refurbishment and maintenance be conducted on time. Since this work is conducted by union labor, there is little chance of interruption barring a strike. However, when management turn over, the incumbent's oversight and control efficiencies are lost as the new contractor comes on board. Losing these labor efficiencies, process methods, standardization, and cost control decrease quality and performance. [Ref. 15] This could have grave consequences for the Marines who depend on the combat gear received from MPF to protect their own lives and that of their troops.

Finally, there is the hidden, but substantial cost of time. The turnover must be supervised by Marine Corps personnel as they "train" the new management on how to

communicate with the Government and understand program priorities. This diverts the attention of the BIC personnel away from the operational matters in their facility, such as scheduling ship arrivals and departures, ensuring the timely arrival of refurbished equipment from the MCLBs, and inspecting and accepting equipment. The program does not improve after phase-in of a new contractor but merely struggles to "hold ground." [Ref. 2]

E. SUMMARY

This chapter states the criteria and requirements for implementing OYC. Additionally OYC was evaluated in terms of the benefits and limitations it could provide to the BIC, MMC. There are obviously some strong OYC proponents. However, the inefficiencies discussed above warrant exploring alternative contracting methods. The next Chapter will analyze one possible alternative, M&O contracting.

III. MANAGEMENT AND OPERATIONS CONTRACTS

A. BACKGROUND

In an M&O contract, the Government contracts for the maintenance, operation, or support of a Government owned or controlled research, development, special production, or testing establishment that is devoted to the contracting Federal agency's program. [Ref. 17] They may be utilized for national defense, mobilization and readiness, or because private industry is unable or unwilling to use its own facilities for the work. [Ref. 19]

M&O gets its origin from the Manhattan Engineering District in the World War II era (commonly known as the Manhattan Project). It was initiated to provide the Government, primarily the Atomic Energy Commission (AEC), a vehicle with which to research, develop, and test atomic weapons. In using the M&O, the AEC could quickly establish a relationship with the contractors in the interest of national defense. The M&O allowed work to commence before establishing all contract terms. [Ref. 8] It provided a quick Government response to the demands and needs of a nation at war. It was this industrial flexibility and responsiveness, coupled with Government oversight, that lead to the M&O's success and facilitated the war's abrupt end.

Since the end of the World War II, both Government and industry have been through many changes. From developing and implementing the FAR through the newest acquisition reform, from Truth-In-Negotiations (TINA) to Competition In Contracting (CICA), Government and industry have had their share of growing pains. Even though the spectrum of change in acquisition has been vast, the tenants and principles of the M&O, as developed in the 1940's, have remained virtually unchanged. [Ref. 8] For 50 years, DOE and its predecessor, AEC, have benefited from the unique relationship that this contractual vehicle provides.

Over the years, contractors using this special procurement method have had a remarkable record of success. This success is due largely to their contractual relationships. M&Os share certain characteristics that set them apart from the normal arms-length relationship associated with Government contracts. The most significant of these are:

- the contractor is acting for the Government in carrying out a significant mission for the department.
- the contractor's compensation in the form of fee or profit is not the only motivation.
- the contractor risks its reputation but not its other assets.

- the scope of work is general, with more specific direction provided by extra-contractual administration documents.

[Ref. 13]

M&Os are most appropriate for long-term or continuing work dealing with mobilization readiness, and national defense. [Ref. 19] In using this contractual method, the Government establishes a relationship with the contractor that allows it to exert the proper influence to obtain national objectives. Additionally, it provides the contractor the flexibility necessary to complete the mission. This special relationship also provides a more responsive and responsible contractor in times when mobilization readiness is a prime concern. [Ref. 2]

Although this contract method seems to be used exclusively by DOE, no statutory or regulatory cites appear to preclude its use by other Government agencies.

B. ELEMENTS

There are several elements or criteria that must be met in an M&O. These terms and conditions and their application to M&Os are discussed below.

1. Criteria

Every M&O appears to be unique. No two contracts are the same. Each one is molded and sculpted to provide the best possible relationship for both the Government and the contractor. However, in all contracts--research, special

production, development and testing, and services--several core elements exist to some degree:

- Government owned or controlled facilities must be utilized.
- because of the nature of the work, or because it is performed in a Government facility, the Government needs to maintain a special, close relationship with the contractor and the contractor's personnel.
- the work is wholly performed and substantially separate from the contractor's other business.
- the work is closely related to agency's mission and is of a long-term or continuing nature and it is essential that continuity be maintained.

[Ref. 17]

If there is ambiguity as to the extent of a certain criteria's applicability, the Head of the Contracting Agency (HCA) will determine whether they are met or apply.

[Ref.17]

2. Policy

Full and open competition will be used in awarding M&Os whenever practical. If competitive procedures will be detrimental to either the United States' interests or effectively discharging the program, the HCA may authorize noncompetitive procedures. However, such authorization must be supported by written justification (J&A) and certified by the HCA. M&Os are normally competed at inception, upon contract completion or termination, or at any other time when it is in the Government's best interest. [Ref. 13]

3. Contract Terms and Options to Extend

The following are DOE's contract terms and conditions for their M&O contracts:

- competitively awarded contracts shall provide for a base contract term not to exceed five years and may include an option to extend for an additional five years.
- total period of performance, including option, not to exceed ten years.
- after five years, in accordance with FAR Part 17.605, the contracting officer shall determine whether competing the contract will produce a better offer for the Government then exercising the option.
- prior to exercising the option a J&A shall be submitted to the Assistant Secretary for approval.
- in instances where it is advantageous to the Government and approved by the Assistant Secretary the contract may be extended past the ten-year limit in five-year increments.

[Ref. 13]

4. Procedures for Noncompetitive Extension Past Option Term

As previously mentioned, it may be in the Government's best interest to extend the contract noncompetitively past the ten-year period. Lack of competition, in the interest of national defense, budgetary constraints, or combinations of these and other justifications may favor extending an M&O. In these situations, and in accordance with the DEAR, the contracting agency will conduct the following:

- recommend to extend, at least 24 months in advance, to the HCA. Recommendation shall include

a J&A in accordance with FAR Part 6 and a certificate to be verified by the HCA that the use of full and open competition is incompatible with the effective discharge of the current program and is not in the best interests of the United States.

- determine if past performance, to include, at a minimum program accomplishments, safety, financial and business management, and socioeconomic programs, meet the current established performance measures for the agency.
- outline principal issues and significant changes to be negotiated in terms and conditions of extended contract.
- determine that M&O remains appropriate form of contract method.
- present any other information that is pertinent to decision.
- if and after approval, HCA will publicize in the Federal Register the intent to recommend a contract extension.

Not all situations may warrant an extension without competition. However, programs vital to national security and mobilization and readiness may reap benefits and advantages that are not normally available to the Government through other procurement methods.

C. BENEFITS

The benefits derived from this contracting method, as they apply to the Blount Island MPF program are, include:

- Consistent Contract Type
- Improved Contractor Efficiencies
- Improved Quality

- Improved Resource Planning
- Elimination of Recompensation Costs
- Program Stability
- Special Relationship
- Turnover Costs

1. Consistent Contract Type

Although a new procurement method, M&Os do not require a change in contract type. A CPAF is currently used for OYC. M&O contracting can use the same contract type. As a matter of interest, M&Os can use any contract currently approved for the Department of Defense (DoD). Using the identical type of contract would allow a simple transition to the M&O method. [Ref. 14]

2. Improved Contractor Efficiencies

As with OYC, M&O provides contractor efficiencies not normally associated with shorter contracts. As stated in the previous Chapter, the contractor is required to submit a Program Management Plan for both MMC and shipboard actions. An M&O allows continued execution of this intricate and very detailed plan. Additionally, by extending the contract, the Government gets an incumbent contractor who is familiar with the work, and understands the overall program. The contractor gains more knowledge with each option. This in turn

allows the contractor to capture potentially greater operating efficiencies. [Ref. 18]

3. Improved Quality

Quality improvements are another very important benefit from M&O. As with OYC, the long-term relationship fosters better communication between the Government and the contractor. As a result, both parties are better able to resolve any differences or conflicts. For instance, good communication between the Government and the incumbent could provide useful information about labor difficulties. This would allow corrective actions to be initiated immediately. [Ref. 5] This type of behavior is not normally associated with short-term contracts. [Ref. 23]

Additionally, the knowledge and experience gained from previous years can provide efficiency advantages which a new contractor could not emulate. For example, management relations with the Government and unions can only be enhanced with a longer contractual relationship. The Government can establish Standard Operating Procedures (SOP) with the incumbent that improve such processes as inspection/acceptance, increasing quality. Because of the long-term relationship, labor unions would also be required to work with the current management's objectives and goals.

This would help establish procedures to attain management's desired quality level.

4. Improved Resource Planning

As with OYC, M&O also improves resource planning. It guarantees the contractor a level of demand for services over an extended time period. This allows contractors to establish long-term relationships with their subcontractors. This may reduce costs for supplies and materials; savings could be passed to the Government. The prime's longer commitment to the subcontractor can also provide cost advantages in contract administration and overhead rates.

One can only speculate on the actual cost savings, since no data are currently available, but interviews for this thesis support this presumption. Some cost savings would involve quantity discounts and lower administrative costs associated with renegotiating contracts. [Ref. 18] Since this is a CPAF contract, the Government would directly realize these savings.

Additionally, the contractor can provide greater dependability and is more responsive to changes proposed by the Government. [Ref. 7] Currently, significant time is spent establishing the Government/contractor relationship. Several of the interviewees stated that once the relationship was established and understood by both parties, it was

time to recompute the contract. Allowing the relationship to continue for a longer period of time takes advantage of the situation created by the parties' mutual understanding. In doing so, the contractor better appreciates and understands the Government's position, and likewise for the Government. Knowing how the Government will respond to unforeseen issues allows the contractor to anticipate and react more quickly, before the situation becomes serious.

5. Elimination of Recompetition Costs

In establishing a long-term relationship with the contractor, the Government can reduce the costs of recompetition. Recompetition costs involve several factors. The immediate costs are those associated directly with the source selection process. Evaluating proposals, holding pre-proposal conferences, and discussions with potential offerors significantly contribute to recompetition cost. Normal recompetition requires four senior civilian employees for two man-years and one attorney for one man-year. As stated in the previous Chapter, provided no protests are filed, the Government's costs are approximately \$200,000. However, contract award has always been protested in this program. Although protest costs are situationally dependent, they can be expected to at least double the total recompetition costs. Recompeting this contract once every

ten years reduces this cost by one-half. Adding the possibility of additional extensions/renewals increases the savings.

6. Program Stability

Another benefit to the MPF Program is the stability it provides to the BIC facility. By entering into an M&O long-term relationship, the Government, and the MPF Program will reap benefits not normally associated with other special contracting methods. As previously stated, a five-year contract with an option for five more years would allow for longer term subcontracts. This longer term arrangement would facilitate scope flexibility as well as increased contractor knowledge. This in turn would make the contractor more responsive to changes by the Government and more innovative and creative in managing the processes. For example, the long-term agreement would give the incumbent the opportunity to more efficiently use Government-Furnished Equipment (GFE). In turn, this could reduce the union's surge workloads or overtime, conserving the labor force and providing additional cost savings. In theory, this would stabilize the program and improve the product--maintaining and refurbishing MPF equipment.

7. Special Relationship

One of the strongest rationales for using the M&O for the MPF Program is the special relationship it creates between the Government and the contractor. As stated in the previous chapter, MPF is responsible for over 50 percent of our Nation's strategic lift. Recent history has shown MPF's importance. If MPF had not been available prior to Desert Shield/Storm, Sadaam Hussein's invasion of Kuwait could have had a drastically different outcome. [Ref. 9] If such a large portion of our Nation's responsive force is embedded in MPF, then why not create a relationship that would allow the United States to create and maintain a strategic advantage in this area? M&Os create a partnership between the Government and the contractor. The Government is responsible for the what and the contractor for the how. Such a relationship would allow the contractor to become a program facilitator instead of just a service provider--a relationship that would benefit the Government.

8. Turnover Costs

As with recompetition costs, the turnover costs would be either reduced or eliminated. As discussed in the previous Chapter, these costs are estimated to be in excess of \$500,000. Since the contract only needs to be recompeteted every ten years, the cost could be reduced by one-half.

Where noncompetitive extensions past the ten-year term are granted, the turnover cost could be virtually eliminated.

D. LIMITATIONS

- Contractor Complacency
- Loss of Competition/Dependency on Incumbent
- Lack of Option Year

1. Contractor Complacency

A Limitation to the using the M&Os is the potential for contractor complacency. As the length of the contract increases, some of those interviewed felt that it diminishes the Government's ability to manage the contract effectively, thus eroding the arms-length relationship. Additionally, a few interviewees suggested that the special relationship could produce an "old boy network," where the line between Government and contractor employees blur. If this occurs, there would be the potential for conflicts of interest and reduced oversight of the award fee process. The former could jeopardize program execution while the latter could lead to cost growth.

2. Loss of Competition/Dependency on Incumbent

As previously mentioned, a primary reason for entering into an M&O is to reduce overall costs. However, an M&O can potentially increase costs. The absence of competitive cost

pressures is one concern that should be considered when implementing an M&O. Additionally, since contractors do not use their own facilities, this problem could have severe consequences. For example, if the contractual relationship should deteriorate for one reason or another and prove no longer to be in the Government's best interest, a new contractor must be found. Not only would the contract have to be recompeted, but the turnover discussed in Chapter 2 would also occur. With a PALT of 24 months and a turnover of 90 days, it could be a long, volatile, and tense relationship between the Government and the incumbent--a very undesirable situation for the MPF Program.

3. Lack of Option Year

The final area of concern with the M&O is the lack of an option year. Once the award is made, barring any type of termination, the contract is in effect for five years. The lack of option clauses could reduce the Government's flexibility. Marginal contractor performance, disputes with the unions, or similar circumstances could provide a tenuous situation in a long-term arrangement such as this.

E. SUMMARY

This chapter states the criteria, policy, terms and conditions, and extension provisions of the M&O. Additionally, the M&O's benefits and limitations were discussed as

they pertain to the MPF Program. As presented, the M&O provides some significant advantages that are not available with OYC or any other special contracting method. The next chapter will compare and contrast the OYC and M&O procurement methods as they relate to the MPF Program.

IV. COMPARING AND CONTRASTING OYC AND M&O

A. BACKGROUND

Data for this part of the thesis were primarily obtained from the DEAR, the FAR, and responses to a questionnaire that was mailed to Government procurement personnel, and individuals from ATSC and other competitors in the industry. Additionally, follow-up interviews were conducted, in person and via telephone. Since the population questioned was relatively small, most persons responding to the questionnaire were interviewed.

The questionnaire centered on the advantages and disadvantages of the current procurement method. It also provided the respondents a chance to espouse what they thought might be the benefits and/or limitations of lengthening the contractual arrangement, as provided by an M&O. The questionnaire examined the current contracting method and determined the potential advantages of switching to M&O contracting. Anonymity was afforded to all individuals responding to the questionnaire.

B. QUESTIONNAIRE STRUCTURE

The questionnaire involved several questions that dealt with both the current procurement method and the new, pro-

posed method. The respondent had to answer questions about the current procurement method and contract type utilized.

The remainder of the questions elicited specific information concerning OYC. In particular, some questions solicited detailed information about the procedures currently used. Other questions determined the feasibility of switching to a longer type of procurement.

The questions were intentionally vague, not directing the respondents in any specific direction. Additionally, there were no questions pertaining directly to the use of M&O. M&O was presented in generic terms as a long-term procurement method. This was done because of the respondents' lack of familiarity with this particular method; their lack of knowledge might inhibit them from answering this section of the questionnaire.

DOE personnel were interviewed vice being sent a questionnaire because they lack familiarity with DOD/Marine Corps procurement in general and specifically the MPF Program.

A total of 15 questionnaires were sent to the Government, incumbent, and competitor contractor personnel. Ten were returned. Additional questionnaires were sent to ATSC subcontractors. Their responses were returned directly

to the researcher. The questionnaire appears in the Appendix at the end of this document.

C. FINDINGS AND ANALYSIS

In this section the OYC and M&O procurement methods will be compared and contrasted by analyzing the benefits and limitations presented in both Chapters II and III. The analysis will be conducted on those aspects of the procurement methods that directly relate to the MPF Program. Where applicable, examples from the current contract will be used to illustrate points, show potential implications of current problems, and better describe the Program requirements. Any facts, requirements, or analyses that are not germane will be omitted.

1. Contract Type

Both procurement methods are compatible with the contract type currently used. They both also provide the flexibility to use to a different contract type, such as a Firm-Fixed-Price (FFP), as appropriate for the program requirements.

2. Contractor Replacement

Due to the nature of the MPF program, contractor replacement is not easy. The MPF Program is conducted at the Blount Island Ship Facility, a Government leased facility. Since the facility is not owned by the

contractor, replacing the incumbent requires a minimum of five months, a two month notice and a three month turnover. It is impossible to develop another source concurrently.

If a contractor needs to be replaced during the contract, OYC is advantageous. OYC's yearly options allow the Government to incentivize the contractor to optimize the organization's performance. If the contractor fails to do so, the Government will not exercise the options. This course of action is not available with the M&O method. In an M&O contract the Government's only option would be terminating the contract. Furthermore, the termination option would only be available if the Government's requirements changed or the contractor defaulted. If performance is marginal under an M&O contract, the Government would be required to take the contract to full term. The Government could then choose not to exercise the option.

However, this issue is not significant in the MPF Program. Past history of the program and past performance of the contractor show that this aspect of the procurement may not be that large of a factor. To date, all options of all the contracts associated with this program have been exercised. Furthermore, on average, 90 percent of all award fees associated with these contracts have been disbursed to the contractors. In light of this past history, and the

fact that only large multi-million dollar corporations compete for this contract, the risk associated with the Government's ability to exercise options appears to be minimal.

3. Improved Contractor Efficiencies

Both procurement methods allow for improved contractor efficiencies. This particular benefit is one that usually accrues from any long-term contractual relationship. This analysis focuses on the degree to which the efficiencies are realized. Interviewees stated that the efficiencies currently received from the OYC method are limited and concentrated primarily in the area of repetitive tasks. This is caused in part by the time required for both the Government and contractor to develop the working relationship. Interviews with the current ACO revealed that by the time the Government/contractor relationship is cultivated to the point where significant benefits can be realized, it is time to recompute the contract. Interviews with representatives for both the Marine Corps/Government and the contractor showed that due to changing program priorities and the cyclical nature of the work this contract promotes a slow building relationship between the Government and the contractor. Therefore, only minimal efficiencies are realized under OYC.

It should also be noted that contractor compliance with required Government approvals for a CPAF of this magnitude, such as contractor purchasing systems reviews, accounting system approvals, and authorization of Government property procedures, demand a great deal of time to develop. More than half of the five-year OYC period has expired by the time relationships are established with the contractor and procedures approved by the auditor, such as the Defense Contract Audit Agency (DCAA), Small Business Administration (SBA), and the Department of Labor (DOL). The "payback" period is too short under the OYC method for both the Government and the contractor. [Ref. 2/Ref. 6]

Additional interviews also yielded another problem inherent with OYC. Due to the fact that contractors are given one-year contracts with four option years they are not willing to make the capital investment or the contractual relationships with their subcontractors required to further increase efficiency. Because the additional years are options, contractors believe they could be canceled at any given time, regardless of the Program's past history. Therefore, contractors are not willing to risk investments to create those efficiencies.

For example, ATSC has considered implementing a computerized time card process. Conservative estimates from

ATSC are that the new process would save 15 minutes per day per employee. [Ref. 6] Multiply this by the number of employees using time cards, approximately 500, and 125 labor hours are saved in one day. This equates to 625 hours per week. A reduction of this magnitude could reduce overtime, which would result in direct savings to the Government. However, because the contract is currently one year with four option years, ATSC is not willing to make the required investment.

The instability perceived by ATSC with OYC creates a trickle-down effect that influences its subcontractors. A longer term M&O contract would encourage contractors to enter into long-term relationships with their subs. Accordingly, the subcontractors are not willing to undertake cost saving investments and share the benefits with the prime.

For example, Atlantic Drydock is currently the only company that competes for the subcontract for lighterage repair, the largest subcontract for this program. History has shown that there are only one or two competitors that have the resources to support the "payback" period required for capital investments associated with purchasing larger size blast boats and lighterage-unique support equipment. A long-term subcontract, such as one that could be provided

under an M&O, would enhance competition by increasing the potential number of offerors for this subcontract and provide cost savings by creating a more efficient lighterage repair facility. [Ref. 2/Ref. 4]

Furthermore, Diversified Containers, a subcontractor for ATSC, specifically stated that a long-term arrangement with the prime would permit them to fabricate certain container parts that they currently contract out. Although no costs were mentioned, the subcontractor stated that the savings would be significant. Also, fabricating parts in-house would allow the subcontractor to be more responsive to the prime in short lead time situations or circumstances such as a national emergency that requires accelerated maintenance to ready the MPF.

Using an M&O would automatically allow the Government to enjoy the efficiencies it has worked so hard to develop. By virtue of its potential ten-year term, including options, the Government retains a contractor who is familiar with the scope of work and the overall program priorities. Furthermore, any creative or innovative techniques that the prime or subcontractor introduced or initiated, such as computerized time cards, can continue in force for the next five years or longer. Both the Government and contractor

feel that the incumbent is in the best position to provide continued superior service at the best price.

Additionally, an M&O would improve labor resource efficiencies. A long-term contract would increase the prime's leverage in collective bargaining agreement (CBA) negotiations with the labor unions. Under OYC, the last two contractors have had to perform with CBAs negotiated by their predecessors. The successor is typically unfamiliar with the advantages/loopholes that are created by certain clauses, and hoodwinked during negotiations. Even if the contractor comes to realize that it gave away more than it "bargained for," the unions know that they may have a different successor contractor and therefore will not suffer repercussions from any exhibition of bad faith. Additionally the Government is not a party to these negotiations. Even so, because of the contract type it must absorb 100 percent of the labor costs. As such, there is considerable risk for escalating labor costs under OYC and no means to prevent it. An M&O would allow for a contractor to have the same management team that negotiated with the union, a team as experienced and knowledgeable as the unions in regard to the CBAs. [Ref. 2]

Also, by entering a longer term arrangement, both the prime and subs could keep a larger and better quality labor

base. The guarantee of work in the future would prevent contractors from releasing experienced workers during non-peak times. Maintaining this base of quality workers would improve efficiency and learning curve effectiveness when the program shifts from non-peak to peak times. [Ref. 2]

4. Improved Quality

The next area of comparison is that of improved quality. Both OYC and M&O improve the quality of the services performed in the MPF Program. However, a significant advantage resides with an M&O. The added duration of the M&O would provide the opportunity to establish, develop, and implement SOPs, such as those associated with quality assurance. Furthermore, a longer duration would require labor unions to develop good relationships with the contractor vice biding their time until the contract expires and a new contractor takes over.

Although OYC provides a majority of the opportunities discussed above, it does not facilitate union relations. The feeling amongst Government contractors and union employees is that a one-year contract with the potential for four identical option years does not provide nearly the same incentive to reduce the animosity, normally associated with management and unions, as does a five-year contract with the option for at least five more.

Also, the duration of an M&O would allow the incumbent and subcontractors to purchase higher grade, reusable materials for performing their contracts. The following example illustrates this point. During an interview with Atlantic Drydock, ATSC's subcontractor that refurbishes lighterage, their representative stated that a longer, guaranteed contract would enable them to purchase a higher quality, reusable stainless steel grit for use in sand-blasting barges. The higher quality grit would work faster and better than the powder grit currently in use. This in turn would reduce rework, and accordingly the actual hours worked. Although initially more expensive, it would be more economical and do a better job through the life cycle of the program. Again because of the uncertainty associated with OYC, the contractor will not make the investment. [Ref. 4]

5. Costs

The potential cost savings that may be garnered when using an M&O are substantial. This section will compare and contrast the cost savings of an M&O against an OYC.

a. Recompition Costs

There are several costs associated with recompeting contracts. Preparing the solicitation, pre-proposal conferences, evaluating the proposals, discussions with offerors, request for Best and Final Offers (BAFO),

evaluating BAFOs, and debriefings with unsuccessful offerors are just some of the tasks involved in recompeting contracts. Estimates from the Government show that the costs for the MPF solicitation range anywhere from \$150,000 to \$200,000. [Ref. 11/Ref. 16]

In using an M&O the aforementioned costs are reduced by approximately one-half. The changing of the current procurement to an M&O would require that the contract only be recompeted, at most, once every ten years. Competing every ten years vice every five would reduce the costs directly associated with the evaluation process.

b. Protest Costs

The cost of defending award protests by competing contractors are another cost reduction that would accrue if the procurement method were switched from OYC to M&O. From its inception, at least one award protest has been filed by an offeror in each competition. In 1991, the last recompetition of this contract, five protests were filed--all by the incumbent. The total costs directly related to these protests were approximately \$500,000. [Ref. 16] All of these protests were cited as frivolous and were dismissed in their entirety by the General Accounting Office (GAO). [Ref. 16]

Unfortunately the future contracts promise as much and probably more protest litigation. Interviews with procurement personnel and legal counsel confirmed this. Because the dollar value of this contract--in excess of \$25 million annually, the largest service contract used by the Marine Corps--and the fact that the defense industrial base is shrinking, protests will certainly be filed upon notice of award. The Assistant Legal Counsel for MCLB, Albany, Georgia, who worked as chief counsel for the Marine Corps on the most recent gauntlet of protests, stated that the contractors, especially the incumbent, have nothing to lose and everything to gain by filing a post-award protest. By filing a protest, losing incumbents can maintain their position and continue to receive money/profit from the Government pending a final decision on the protest.

In using an M&O, this cost too can be reduced by one-half. Although no Government procurement method eliminates all protests, M&O potentially extends the contract to ten years. Accordingly the Government can minimize the risk of protest associated with recompeting. Though the actual number of protests at each competition may not be reduced, the opportunity window to file the protests will be cut by one-half. This saves the Government money and avoids potential disruption to the MPF Program.

c. Turnover Costs

(1) Monetary Costs. Another area of cost comparison will be those associated with the phase-in/phase-out of the old and new contractor. The Government estimated this cost to be \$506,750 for the turnover that occurred when the current contract was awarded in 1994. Interviews conducted with ATSC revealed that they actually incurred \$268,000 in costs for their portion of the turnover (phase-in). No data were available on HTS's costs. However, industry estimates phase-out costs to be two to three times higher than phase-in costs. [Ref. 5]

Here again, the M&O provides an advantage over OYC. The M&O would be competed once every ten years, at a minimum, vice once every five years under OYC. This reduces the Government's ability to switch contractors, which reduces potential turnover costs. However, this is not an unambiguous benefit. If the Government is willing to bear turnover costs, it indicates that switching contractors is the most efficient decision despite the turnover costs and loss of experience. Potentially reducing turnover costs is a benefit of a longer contractual relationship; reducing the flexibility to change contractors is a cost. Experience with the MPF Program indicates that the Government is unlikely to switch contractors frequently. Therefore,

turnover cost savings and loss of flexibility are unlikely to be significant in this program.

(2) Contractor Expertise. Another cost associated with turnover is the cost of experience. Interviews with Marine Corps contracting personnel revealed that the loss of experienced contractor management and their supporting corporate structures after phase-in dramatically erodes MPF's responsiveness. A less experienced management cadre will still be struggling to master the port facility operations, unable to assume adequate control of the MPF Program. [Ref. 2]

The need for this crucial expertise was made very clear during Desert Shield/Storm and the subsequent follow-on operations. Being at the peak of its experience allowed the incumbent to exercise some flexibility that could not have been provided by a new contractor. Deploying MPF to Southwest Asia (SWA) required the incumbent to refocus operations from the port facility in Jacksonville to the port of debarkation in SWA. At the height of the crisis, the union work force at BIC was reduced from approximately 500 to 150 personnel. About 275 workers were sent to SWA and the remainder temporarily laid-off. [Ref. 5]

The incumbent's experience proved invaluable in anticipating the Marine Corps' requirements and executing a phased reduction of the Jacksonville workforce and subsequent redeployment to SWA. The incumbent's knowledge and experience provided for a smooth and flawless transition to new program priorities, preparation for war. [Ref. 2]

After completing operations in SWA, the rapid return of Marine Corps units to their original duty stations left the contractor the task of back loading all the MPF equipment. In conjunction with the back load, management had to complete accurate inventories, proper loading and dunnage, limited technical inspections, and corrective maintenance whenever possible. Again the experience and knowledge of the contractor's management personnel proved instrumental in the MPF Program's continued success.

The incumbent's expertise was not only exhibited in SWA. Back at BIC, the contractor displayed the requisite skill and resourcefulness to keep 150 workers employed on different contracts while all the ships were deployed to SWA. This action allowed the contractor to retain the core knowledge of the blue-collar level employees. This body of core knowledge enabled the contractor to receive the data from their counterparts in SWA and order the necessary repair parts and replacement

equipment well in advance of the ship's arrival. This foresight allowed the contractor to execute the standard 60-day turnaround for MMC without severely depleting the labor resources. [Ref. 6] Once again, these contractor management actions proved instrumental in the Program's continued success.

In 1992, a little less than one year after completing the SWA operations and back load, MPF was called to Somalia and Operation Restore Hope. If not for the experience and abilities of the incumbent contractor, the United States would not have enjoyed the success it did with the deployment, reconstitution, and subsequent redeployment of MPF. [Ref. 2]

It should be noted that although MPF exercises are conducted on a routine basis, that experience does not prepare the contractor for the events that took place prior to, during, and after the SWA deployment. In the exercises, the contractor is normally assisted in the off load, reconstitution, and back load by a Marine Off-load Preparation Party (OPP). Due to the short notice and problems with utilizing strategic airlift, these operations were conducted by the contractor alone. [Ref. 2]

The above situations are depicted to illustrate the importance of continuity within the MPF

maintenance program. OYC allowed for this continuity. However, had it not been for the timing of Sadaam Hussein, the outcome could have been different. The SWA operation took place during the last option year of a current OYC. Had it occurred during or immediately after conducting a turnover, the results could have been drastically different. Additionally, another one-year contract had to be negotiated in order to ensure that the turnover did not occur during the operation's back load or reconstitution phases. Had an M&O been in place vice an OYC, it could have facilitated the uninterrupted flow of contractor services with less concern for contract expiration. Had the ten-year term expired during the operation, M&O provisions would have allowed, as did OYC, for the extension of the contract.

d. Material Costs

Another area of interest is material costs. Although the MPF contract is a nonpersonal services contract, the contractor does require material and supplies to perform the contract. Long-term contracting allows the contractor to establish favorable relationships with suppliers. The guaranteed demand for goods allows the contractor to receive quantity discounts.

Both OYC and M&O provide the savings discussed above. However, M&O provides the opportunity for even

greater cost savings. Even though OYC is realistically a five-year contract, the second through fifth years are options that may or may not be exercised. As such, there is a risk that affects the supplier's pricing scheme. Because of this risk, the suppliers and subcontractors will not offer the prime all the potential cost savings. An M&O would correct this deficiency. The guaranteed five-year term and the five-year option would help incentivize the suppliers and subcontractors to provide the maximum possible discounts.

Interviews with ATSC and their subcontractors substantiate this point. By entering into the long-term arrangement offered by an M&O, ATSC stated they could realize considerable cost savings by ordering larger quantities of administrative and recurring operational supplies, such as batteries. [Ref. 6]

The subcontractors would enjoy similar economies. The subs also stated that the increased contract duration would allow them to improve facilities to use reusable materials. This would decrease the contract's overall cost. [Ref. 24]

e. Labor Costs

The final area of comparison is labor costs. As discussed in section three of this chapter the contractor is

involved in the negotiation of CBAs with the labor unions. The past practice has been that the contractor negotiates the CBAs with the unions and the replacement or subsequent awardee actually executes the agreement. To date, fiscal year 95, the labor costs associated with this contract were 68 percent of total contract costs, \$24,948,452. In using an M&O the contractor responsible for negotiating the CBAs could oversee their implementation. This would prevent the unions from violating the "good faith" arrangements with the contractor and provide the opportunity for better cost control by the contractor. [Ref. 2]

6. Program Stability

The M&O definitely offers the advantage of program stability. All factors and analyses to this point support this conclusion. As discussed in the previous sections contractor efficiencies, improved resource planning, reducing or eliminating recompetition and its associated costs, and improved quality are all benefits of enhanced program stability. Furthermore, minimizing the option year hurdles would enable the prime to establish longer term relationships with its subcontractors and suppliers. This provides a more responsive support structure during national crises or when surge workloads are required.

7. Special Relationship

Examples of MPF operations conducted by the contractor were discussed in Section 5c. Recompensation and turnover costs, are prime examples of the importance and advantages of a special relationship that would be provided by long-term contracting. Although the benefits discussed in the section were under OYC, there is equal or greater potential for the establishment of such a relationship under the M&O method.

As stated earlier, the timing of the OYC contract during the SWA operation appeared to be coincidental. Had the incumbent contractor not been in the last year of the OYC, capturing the related efficiencies on the experience curve, the deployment to SWA could have looked very differently. The United States as a whole, and specifically the Marine Corps were lucky that the MPF Program had an experienced contractor when the deployment order was initiated. Experience and efficiency are continually necessary in the MPF Program. The need for a special relationship between the Government and contractor is paramount if the program is to be successful. Such a relationship, as discussed in the section on turnover costs is built over a long period of time. The incumbent contractor's actions and reactions during the ramp-up for

SWA and the subsequent back load were effective. The ability for the contractor to act independently and in accordance with the Government/Marine Corps requirements should be an objective for both the Government and the contractor. However, attaining those objectives takes time.

While OYC and M&O both provide the necessary time to develop this type of special relationship, M&O has the advantage. The five-year term with the option for five more would be more conducive to establishing this type of special relationship. Common sense dictates that in an environment where MPF provides 50 percent of the Nation's strategic lift any approved contracting method which would facilitate a longer term relationship should be utilized.

8. Contractor Complacency

Initial investigation into M&O contracts gave a distinct advantage to OYC. The ability of the Government to terminate the contract would provide an incentive to keep incumbent contractors on their toes. Conversely, the lack of option years in an M&O might reduce the incentive for the contractors to optimize their performance. Additionally, the longer term contract may erode the arm's length relationship between Government and contractor.

As information was gathered, the advantages of OYC over

M&O became less clear. The data collected focused on two related areas: complacency and relationship.

a. Complacency

Complacency appears to be an exception with either method. Interviews with both the Marine Corps and industry contract personnel tended to support this view. The Marine Corps stated that because of the fluidity of change associated with this contract, both in scope and Government oversight (ACO rotates every two to three years) the chance for complacency on the part of either the Government or contractor is minimal at best. [Ref. 2]

Industry echoed the same view but for different reasons. Both the prime and his subcontractors stated that the ever turbulent Government contracting environment, in conjunction with the shrinking defense budget and defense industrial base, make complacency a very unattractive trait. Specifically, in today's world of increased regulations and oversight, as well as heightened public awareness, entering a Government agreement and developing a relationship that was anything less than professional would not be in the best interest of either the Government or the contractor.

b. Arm's Length Relationship

As with complacency, this area does not seem to be of great concern to either the Government or industry.

Oversight on this contract is a very directed and substantial effort. The intensity of this effort coupled with the fact that the Marine Corps personnel associated with this contract rotate out of the area every 24 to 36 months reduces the possibility of this type of behavior. Although it is possible to lose the arm's length relationship in any contracting endeavor, the control mechanisms in place with this program ,i.e., DCAA auditing procedures and required approval of purchasing systems, significantly reduce the potential for this situation. [Ref. 2]

9. Loss of Competition

Another misconception was the loss of competition. It was thought initially that the extended duration of both OYC and M&O would reduce effective competition. While it is true that the term of these contracts naturally lessens opportunities to compete, it is also true that they are effectively competed to a greater extent. The potential for a lengthy contractual relationship with the Government entices more organizations to compete than if the contract were shorter. By lengthening the term of the contract, the Government can actually increase the competition at contract award.

There is an additional potential advantage in utilizing the M&O. Interviews with Government and industry revealed

that the option terms associated with OYC tended to reduce both the number and quality of the competitors relative to the M&O contracts five-year term. Most respondents felt that the risk that the Government might not exercise the OYC options limited competitors to only those organizations who needed the work or felt it was worth the risk, not necessarily the best qualified contractors. The longer M&O term coupled with the potential five-year option should allow increased effective competition and produce the best qualified offeror.

10. Dependency on Incumbent

Neither procurement method provides a distinct advantage in this area. Due to the fact that the facilities used to execute this contract are leased by the Government, the Government will always depend on the incumbent regardless of which procurement method is used. As long as the work is conducted at BIC, there is no opportunity to concurrently develop another source.

11. Lack of Option Year

The final area of comparison concerns the option year. The method which has the greatest advantage in this area depends on who is interviewed. Some, primarily the Government, feel that the ability to exercise an option is a distinct advantage. It provides the flexibility to remove

an unproductive contractor should the need arise. Furthermore, it allows the Government to cancel the contract without any additional cost. Without yearly options, as with an M&O, the Government's hands would be tied. Except for expensive termination procedures, there would be no options to cancel the contract if the Government were dissatisfied with the incumbent's performance. Additionally, the Government would have no recourse for marginal performance.

Industry representatives feel that the option year is a liability rather than an asset. The possibility that the Government may not exercise an option, no matter how remote, is a significant deterrent to investing in efficiency producing processes. The option years coupled with a CPAF contract provide no real incentive for the contractor to introduce risky new and innovative cost cutting measures.

It would appear that option years afford the Government some flexibility and the ability to incentivize the contractor, but that may be one of the Achilles heels of the present process by reducing efficiency.

D. SUMMARY

This chapter compared and contrasted OYC and M&O. From a conceptual standpoint, the OYC currently utilized in the MPF Program reduces efficiency and increases the Govern-

ment's cost. Although the Government feels that OYC is an adequate tool for executing this program, industry, namely the incumbent, provides another perspective. Industry believes that this procurement method limits investments in efficiency and cost savings.

The Government could capture several advantages above and beyond what OYC offers if it were to utilize a longer term procurement method, such as an M&O. Benefits in quality, contractor efficiencies, and resource planning would be realized. Additionally, added benefits would accrue from cost savings, program stability, and the establishment of a special, mutually beneficial contractual relationship.

The next chapter will present the conclusions and recommendations from the findings that were developed in this chapter.

V. CONCLUSIONS AND RECOMMENDATIONS

A. BACKGROUND

The research shows that there may be a viable alternative to the contracting method currently used by the Marine Corps and the MPF Program. Although most comparisons made in this thesis are general in nature, this document indicates that M&O contracting may provide the Marine Corps acquisition community with a cost reducing replacement to OYC. Furthermore this form of contracting, new from the Marine Corps perspective, may provide the stability and continuity that a program of this strategic importance requires.

B. CONCLUSIONS

This section will discuss the primary and subsidiary research questions posed for this study in Chapter I.

1. Primary Research Question

Can M&O contracting successfully improve contract performance under the MPF Program?

The research indicated that M&O contracting may in fact successfully improve contract performance under the MPF Program. In using M&O contracting, little if any change would be required to the Marine Corps' current procedures in this program. The inherent characteristics of the MPF

Program make it a prime candidate for the special circumstances that the M&O addresses. The M&O is flexible enough to allow the Government to continue conducting the MPF Program as it has since its inception. No changes to contract type, statement of work, financing methods, method of competition, disbursal of award fee, or any current tasks are required in this procurement. M&O contracting will not alter the service received by the Government. However, it will provide the Government the opportunity to extend the contract for a longer period of time, ten vice five years. This increased length of the contractual relationship would provide stability and continuity to a very vital national program. Additionally, it should provide a significant reduction in the overall cost of the program.

2. Subsidiary Questions

a. Subsidiary Question #1

What is M&O contracting?

M&O contracting is an agreement under which the Government contracts for the operation, maintenance, or support of a Government-owned or -controlled research, development, production, or testing facility. It surfaced in the World War II era to develop and produce nuclear weapons. It appears to have been utilized exclusively by

DOE and its predecessors. Only the agency head with requisite statutory authority can authorize this contract type.

The contract itself is awarded on a competitive basis for a five-year term with the option to extend or renew for another five years. The procurement method can incorporate any contract type currently utilized by DoD. In most cases, the contract's total period of performance will not exceed ten years. However there are special circumstances or situations where it can be extended without competition for an indefinite period of time. Those factors that provide for indefinite extension are usually centered around national security or contingency operations.

The M&O establishes a special relationship between the Government and the contractor. It lets the former dictate "what" to accomplish while the latter specifies "how" it is to be accomplished. M&Os cannot be authorized for functions involving the direction, supervision, or control of Government personnel.

There are instances, based on the mission of the organization, the services required, and the Guiding Principles of the FAR, where this procurement method is totally appropriate. The MPF Program appears to be one of these instances.

b. Subsidiary Question #2

What is its applicability to the MPF Program?

M&O contracting is very applicable to the MPF Program. As it exists in the DEAR, the contract may be used for the requirements of the MPF Program. As stated in Chapter III, FAR Part 17.6 delineates specific requirements that must be met to use an M&O contract. For the convenience of the reader, they will be listed again. They are:

- Government owned or controlled facilities must be utilized.
- because of the nature of the work, or because it is performed in a Government facility, the Government needs to maintain a special, close relationship with the contractor and the contractor's personnel.
- the work is wholly performed and substantially separate from the contractor's other business.
- the work is closely related to agency's mission and is of a long-term or continuing nature and it is essential that continuity be maintained.

The MPF Program and the qualifications of the present and prospective contractors meet all of these requirements. Also the M&O could use the identical contract, CPAF, and the award fee structure that is currently used by OYC.

Furthermore, the research and interviews with DOE indicate that M&O's inherent flexibility make it applicable to almost any procurement that meets the FAR requirements listed above.

c. Subsidiary Question #3

How does M&O contracting compare and contrast to the OYC procurement method currently used?

In comparing and contrasting the two procurement methods, several observations were noted. First, both procurement methods can use a CPAF contract type. Both also can use all other contract types currently utilized by DoD. The M&O will prove more beneficial as the program matures and opportunities arise for using more efficient contract types.

Second was the issue of contractor replacement. Upon initial inspection, OYC appeared to possess an edge in this area. The Government could exercise or not exercise the contract options. Further research revealed that although OYC may provide a potential advantage, to date the Government has exercised all contract options regardless of contractor. This substantially reduces the significance of this advantage.

The next areas, contractor efficiencies, improved quality, improved resource planning, program stability, and creating a special contractual relationship will be considered together. Both contracting methods provide for increased efficiencies in these areas, but the M&O method provides them to a greater degree. The longer Government

contractual obligation allows the contractor and subcontractors to risk the investments of time and capital required to increase efficiency in the areas listed above. SOPs, computer hardware and software, retaining experienced workers, and facilities upgrades are all actions that would be taken if the contract between the Government and the contractor were lengthened. These actions, in conjunction with contractor experience concerning the Government's requirements and program priorities will increase efficiency, quality, and resource utilization. Furthermore, these actions will enhance program stability and the Government/contractor relationship by forming a relationship that resembles a teaming arrangement.

The M&O also reduces total costs. The ten-year package that can be acquired by using an M&O will provide several opportunities for both the Government and contractor to reduce costs. A five-year term with an exercised five-year option reduces contract actions such as recompetition and protests by one-half. Additionally, since the contractor may be extended turnover costs could also be reduced. Currently, with the exception of turnover, OYC encounters these costs once every five years. The M&O method might only encounter these same costs once every ten years. Furthermore, the M&O allows for greater savings in

recurring material costs and better cost control for the negotiated CBAs. With the former, contractors and subcontractors can enter into more lucrative supply arrangements with a longer term contract. The latter provides the opportunity for the contractor to negotiate and implement the CBA with the labor union vice negotiating the agreement and possibly having another contractor implement it.

The final areas of comparison were competition, contractor complacency, and use of option years. All these areas, on the surface, would appear to favor OYC. However, the research showed that this is not necessarily the case. Competition at each contract award might increase if the Government switched to an M&O. A guaranteed five-year contract would draw more potential competitors into the market. The potential option years appear to introduce a level of risk that some of the competent lesser known companies are not willing to bear.

Option years provide the Government flexibility. The Government can remove a marginal performer if it determines such action to be in the Government's best interest. However, this increased flexibility comes at a cost. Option years inhibit the offerors and subsequent awardee contractor from introducing or developing innovative

and cost saving measures. Furthermore, the lack of a long-term agreement prevents the contractor from establishing similar agreements with its subcontractors. Interviews with subcontractors affiliated with the current contract revealed that if a longer arrangement could be made, they could provide greater savings to the prime. Because of the contract type, the Government would share these savings.

Finally there is contractor complacency. As the length of the contract increases, the potential for lethargic, complacent performance may also increase. This presumption surfaced in interviews with DOE personnel. They stated that due to lackadaisical oversight on their part contractor complacency became the biggest problem encountered with this contracting method. Complacency of a research and development contract is a valid concern for DOE, however the repetitive tasks of the MPF Program coupled with Government control measures and the rotation of Marine Corps' personnel minimize this problem in the MPF Program.

d. Subsidiary Question # 4

What are the obstacles to using M&O contracting?

Initially, due to language in the FAR, there appeared to be significant hurdles to implementing the M&O contract. The FAR states that only those HCAs with requisite statutory and/or regulatory authority may authorize the

M&O. As the research progressed, these hard requirements appeared to soften. Interviews with DOE as well as literary reviews confirmed that HCAs may use an M&O if they have approval from their respective Service Acquisition Executives (SAE).

Even though there appears to be no regulatory or statutory requirements preventing its use, there are other obstacles that require consideration before implementing the M&O. The MPF Program draws its funding from Operations and Maintenance funds(O&M). This is known in the contracting community as yearly money. There is some concern about obligating the Government to a five-year contract when the money disbursed for that contract is only available on a yearly basis. Further research showed this to be a minimal concern. DOE utilizes the same type of funding for its contracts, and to date it has created no problems. Additionally, DOE literature stipulates that even though M&O contracts are for five-year terms, they must have their funding approved annually. Failure to receive funding would ultimately cancel the contract, a possible contingency that would be covered by the "availability of funds" clause, FAR 52.232. [Ref. 20]

The biggest obstacle to implementing this procurement method is the lack of resident knowledge in both

the Marine Corps and Navy acquisition and contracting communities. Interviews with procurement personnel revealed some apprehension to using the M&O method. However, virtually all concern centered around the relative unfamiliarity and lack of experience with this method as opposed to the knowledge and understanding of OYC. Even though working knowledge is limited, the Marine Corps acquisition community is receptive to using the M&O.

5. *Subsidiary Question #5*

What are the benefits of using M&O contracting in carrying out the procurement requirements?

The research revealed numerous benefits associated with M&O contracting. First, it provides most of the benefits currently received when using OYC, but to a greater degree. Contractor efficiency, quality, and resource planning all increase with M&O contracting. This improvement is predominantly derived from the longer contractual relationship M&O provides. By increasing the length of the contract, all other factors remaining the same, those tasks where efficiency and performance increase with time and experience would definitely improve. Also, quantity discounts may be captured through bulk purchase if the contract is guaranteed for a longer period of time.

There are also additional benefits from the M&O procurement method that are not available from OYC. As stated above, these benefits are also predominantly attributable to the increased contract length. The first of these extra benefits is reduced costs. The costs of recompetition, potential turnover, materials, and protests are all reduced if this method is used. The potential term length of ten years will decrease the window of opportunity for these costs by one-half. The actions currently performed in the MPF Program, such as reprocurement, are done every ten years instead of five years. Estimated Government/Marine Corps cost savings from M&O contracting is approximately \$1,000,000 over the first ten-year period. These costs may fluctuate up or down based on the number and frequency of protests filed.

Another advantage from M&O is program stability. A long-term contractual obligation from the Government would incentivize the contractor to invest in items and services that would increase program stability. Automation and longer contractual relationships with subcontractors are just two areas that could be improved if the contract were lengthened. Longer contracts would allow the subcontractors to take actions to improve their own operations, including capital improvements or bulk supply purchases. By improving

these areas the contractor and his subs would be more responsive to Marine Corps needs. This would reduce response times and maybe even lower costs during peak times or actions associated with contingency operations.

The final advantage is the special relationship that M&O provides. M&O's longer term arrangement would allow the contractor to more than just facilitate contract services. It would promulgate building an effective Marine Corps/contractor team. It would provide the Government and contractor the opportunity to share information that would help put the program and its continually changing priorities in perspective as well as make the program more efficient. This would allow the contractor to act independently of the Government while still performing in accordance with their guidance and desires.

C. RECOMMENDATIONS

Although the research indicates that this contracting method could be used and produce substantial benefits, it does not guarantee that this method will, in fact, be used. As such, the researcher has developed two recommendations that if implemented would assist the Government/Marine Corps in the execution of the Program.

1. Recommendation #1

Based on the research conducted and the material presented in this thesis, it is recommended that the Marine Corps seriously consider incorporating this procurement method, on an experimental basis, into its acquisition plan for the next MPF recompetition. Implementing this method and capturing data on actual versus the perceived costs savings, will help determine whether this procurement method can enhance the MPF Program.

2. Recommendation #2

Regardless of whether the M&O procurement method is used or not, the Government, specifically the Marine Corps, should reevaluate the process currently used for negotiating the CBAs with the labor unions. A method needs to be devised that would allow for the incumbent contractor to take advantage of its bargaining position when negotiating CBAs. Additionally, the Marine Corps should participate in the negotiating process as well. It only makes sense that the Government should be involved in a process that ultimately accounts for 68 percent of total contract costs under the current arrangement. Allowing the Government to participate in labor union negotiations would help buffer the situation experienced with the CBAs when the contractors turnover.

D. SUGGESTIONS FOR FURTHER RESEARCH

Areas that merit consideration for further study include:

1. A cost/benefit analysis could be done of contracting directly for those services that are currently subcontracted--namely lighterage and container repair.
2. A restructuring of the award fee or exploration of a different contract type could be investigated to see if the contractor could be incentivized to take those risks associated with the items discussed in this thesis that would produce operational and cost efficiencies.
3. An actual template could be developed for an M&O contract that the Marine Corps may use in executing this and similar programs.
4. A study to determine the feasibility of automating some of the processes currently accomplished by hand. Using proven technology in the area of robotics could increase productivity and decrease costs over the life of the program.

APPENDIX. QUESTIONNAIRE

The following is a questionnaire that was sent to both Government and industry contracting personnel. The questionnaire was sent to all individuals currently working with the MPF maintenance program as well as those corporations and/or companies that have or may provide competition on MPF contracts. Those questions marked with an asterisk (*) were sent only to the Government and incumbent contractor.

Date:

Name of your Command, Activity, or Company:

Your name (optional):

Number of years in current position:

Number of years you have worked in the contracting and/or acquisition field:

Phone number:

=====

- 1) Do you wish your answers to remain confidential?
- 2) May I call you if I have questions or want to amplify information?
- 3) Briefly describe your organization's business?
- 4) *What is the type of procurement method currently utilized for the execution of the MPF maintenance contract?
- 5) *What are the advantages/disadvantages with this method?
- 6) What advantages/disadvantages could the Government, specifically the Marine Corps, gain or incur as a result of a long-term contractual relationship?

- 7) What do you feel will be the future tendencies if the procurement method currently utilized is left as is (one year w/four option years)?
- 8) *What weaknesses or vulnerabilities are exposed during the 90-day turnover period between contractors?
- 9) *What impact does the above question have on our National Defense posture and/or readiness?
- 10) *What recurring and nonrecurring cost are encountered with the contractor turnover?

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